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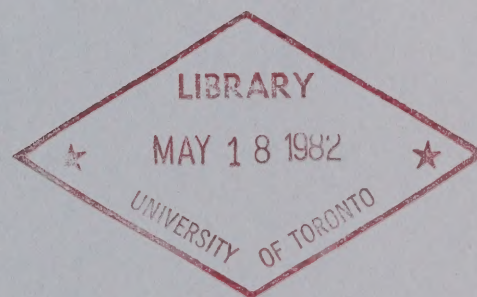
Government
Publication



²
NATIONAL ENERGY BOARD
₃ REASONS FOR DECISION

In the Matter of the Application under
Section 50 and 53 of the National Energy Board Act

of



ICG Transmission Holdings Ltd.
(Tolls Application)

April 1982

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NATIONAL ENERGY BOARD

REASONS FOR DECISION

In the Matter of the Application under
Sections 50 and 53 of the National Energy Board Act

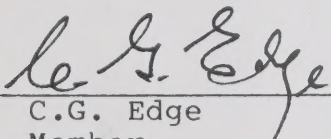
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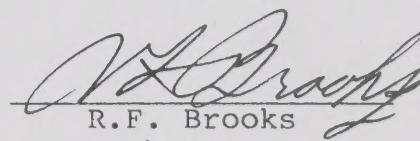
ICG TRANSMISSION HOLDINGS LTD.

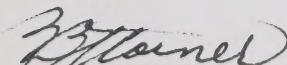
(Tolls Application)

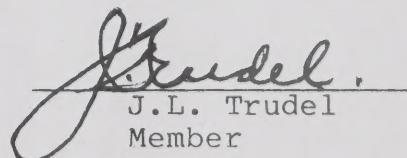
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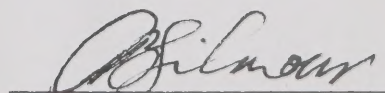
The Board, having received and considered the transcripts of the evidence and argument presented at the hearing of this application and the exhibits filed thereat, together with the report of the Presiding Member, Mr. J.R. Hardie, made pursuant to subsection (1) of section 14 of the Act, and on the basis of those transcripts and exhibits and that report, having satisfied itself with regard to all considerations that appear to it to be relevant, that the tolls recommended in that report are just and reasonable, hereby adopts that report as the statement of its findings and its decision on the application.


C.G. Edge
Member


R.F. Brooks
Member


R.B. Horner
Member


J.L. Trudel
Member


A.B. Gilmour
Member

NATIONAL ENERGY BOARD

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder;

IN THE MATTER OF an application by ICG
Transmission Holdings Ltd. for certain orders
respecting tariffs and tolls under sections 50
and 53 of the National Energy Board Act, filed
with the Board under File No. 1562-J23-3.

HEARD AT Ottawa, Ontario on: 23 and 24 March 1982.

BEFORE:

J.R. Hardie)	As Presiding Member duly appointed by the Board for that purpose in accordance with section 14 of the National Energy Board Act.
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APPEARANCES:

J.D. Brett)	ICG Transmission Holdings Ltd.
J.F. Stacey)	TransCanada PipeLines Limited
S.K. Fraser)	National Energy Board

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ABBREVIATIONSNames

ICG Transmission Holdings Ltd.	"The Applicant", "the Company" or "Holdings"
ICG Transmission Limited	"Transmission"
Inter-City Gas Corporation	"Inter-City Gas"
Inter-City Minnesota Pipelines Ltd.	"Inter-City Minnesota"
TransCanada PipeLines Limited	"TransCanada"
National Energy Board	"NEB" or "the Board"

Terms

National Energy Board Act	"the Act"
Petroleum Administration Act	P.A.A.
Cubic metre	m ³
Thousand cubic metres	10 ³ m ³
Contract Demand	CD
Authorized Overrun Interruptible	AOI
Temporary Winter Service	TWS
Peaking Service	PS
Gigajoules	GJ
Kilometer	km
Millimetre	mm
January 1977 Reasons for Decision	"Reasons for Decision in the Matter of an Application of ICG Transmission Limited Under Part IV of the National Energy Board Act - National Energy Board - January 1977"

CHAPTER 1
INTRODUCTION

On 8 January 1982, ICG Transmission Limited and ICG Transmission Holdings Ltd., a wholly-owned subsidiary, together applied under sections 50 and 53 of the National Energy Board Act for orders fixing just and reasonable tolls to be charged by them for the transportation of natural gas, to be effective 1 April 1982.

The Applicant operates the Manitoba and Ontario Sections of a 324 mm natural gas pipeline transmission system which originates at an interconnection with TransCanada PipeLines Limited's system near Spruce, Manitoba and extends southeasterly for 92 km through Manitoba, crosses the international boundary near Sprague, Manitoba, extends easterly for 84 km through Minnesota, re-enters Canada near Rainy River, Ontario and extends easterly for 89 km through Ontario to Fort Frances where it re-crosses the international boundary to terminate at International Falls, Minnesota.

By application dated 4 September 1981, ICG Transmission Limited applied to the National Energy Board pursuant to paragraph (a) of section 63 of the Act for authority to sell its pipeline to ICG Transmission Holdings Ltd., and, with the approval of the Governor in Council, for an Order of the Board under subsection (3) of section 17 of the Act authorizing Transmission to transfer its Certificate of Public Convenience and Necessity, and its gas export and import licences, to Holdings. Holdings applied pursuant to paragraph (b) of section 63 of the Act for leave of the Board to purchase the pipeline from Transmission. The Applicant requested that, in the event that these applications were approved prior to the hearing or the ultimate disposition of the Part IV application, which was made in the names of both ICG Transmission Limited and ICG Transmission Holdings Ltd., that the tolls application be deemed to be amended to leave Holdings as the sole Applicant thereunder.

The Board, by Order No. MO-5-82 dated 4 February 1982, authorized the assignment and transfer by ICG Transmission Limited of Certificate of Public Convenience and Necessity No. GC-38 and of Licences GL-28, GL-29 and GL-30 to ICG Transmission Holdings Ltd. This transfer and assignment was approved by Order in Council P.C. 1982-1133 dated 8 April 1982. By Order No. MO-6-82 dated 4 February 1982 the Board granted leave for ICG Transmission Limited to sell or convey, and leave to ICG Transmission Holdings Ltd. to purchase the pipeline facilities authorized by Certificate of Public Convenience and Necessity No. GC-38. Consequently, as requested by the Applicant, the Part IV application is deemed to be amended to leave ICG Transmission Holdings Ltd. as the sole Applicant.

By Order RH-2-82, which appears as Appendix I, the Board set the application down for public hearing commencing in Ottawa on 23 March 1982. The hearing concluded on 24 March 1982.

CHAPTER 2

RATE BASE

The Applicant's proposed rate base was the projected average investment required to provide service during the test-year, 1 January to 31 December 1982.

The rate base that I recommend for approval by the Board is shown below, with an explanation of the adjustments following in this chapter.

RATE BASE

1 January to 31 December 1982

	<u>Application</u> (<u>\$</u>)	<u>Recommended</u> <u>Adjustments</u> (<u>\$</u>)	<u>As</u> <u>Recommended</u> (<u>\$</u>)
<u>Utility Investment</u>			
Gross Plant - 1 January 1982	5,613,532	3,100	5,616,632
Accumulated Depreciation	<u>(1,425,313)</u>	<u> </u>	<u>(1,425,313)</u>
	<u>4,188,219</u>	<u>3,100</u>	<u>4,191,319</u>
Gross Plant - 31 December 1982	5,636,932	(300)	5,636,632
Accumulated Depreciation	<u>(1,607,678)</u>	<u>(100)</u>	<u>(1,607,778)</u>
	<u>4,029,254</u>	<u>(400)</u>	<u>4,028,854</u>
Average Net Plant	<u>4,108,737</u>	<u>1,350</u>	<u>4,110,087</u>
<u>Working Capital</u>			
Cash	24,400	(14,400)	10,000
Transmission Line Pack	59,689	4,881	64,570
Prepayments	<u>9,788</u>	<u> </u>	<u>9,788</u>
	<u>93,877</u>	<u>(9,519)</u>	<u>84,358</u>
<u>Deferred Costs</u>	<u>268,703</u>	<u>(268,703)</u>	<u> </u>
Average Rate Base	<u>4,471,317</u>	<u>(276,872)</u>	<u>4,194,445</u>

Gas Plant in Service. The Applicant included in its average test year rate base an amount of \$23,400 for additions to its gas plant in service. Evidence adduced during the hearing indicated that an application for class "C" construction, covering such additions, had been filed with the Board. The Board required additional information on this application which had not been received at the time of the hearing. Since the class "C" application has not yet been approved by the Board, I do not consider it appropriate to include this amount in the rate base.

There was also evidence that an amount of \$3,100 which had been added to plant during the last three months of 1981 had not been included in the application. A Company witness stated that, in addition, the Applicant expected to spend approximately \$20,000 during the test year to register easements for its pipeline in northwestern Ontario. The witness explained that due to an oversight at the time the pipeline was constructed, the Applicant had not acquired all of the land rights and was now in the process of rectifying the situation.

It is my opinion that the \$3,100 for 1981 and \$20,000 for 1982 should be included in the Applicant's rate base and I, therefore, recommend that the opening gross plant amount in the rate base be adjusted to reflect the \$3,100 addition, and the closing balance be adjusted by \$23,100.

The net of the recommended adjustments to the closing balance is \$300.

Accumulated Depreciation. Having adjusted gross plant by \$3,100 as described above, an adjustment of \$100 has been made to accumulated depreciation to reflect these additions (refer also to page 14 under Cost of Service).

Cash Working Capital Allowance. The Applicant included \$24,400 in rate base as a cash working capital allowance calculated on the basis of one-eighth of annual operating and maintenance expense, less any non-cash items. When asked if the Company had done a

lead/lag or similar study to support its requested amount, a witness replied that the cost of such a study could not be justified.

Considering that the Applicant has no employees of its own and that most of its expenses are allocated by affiliated companies, the Applicant did not, in my opinion, present sufficient evidence to justify its cash working capital request or provide reasons why the amount previously authorized by the Board was inadequate. I, therefore, conclude that a cash working capital allowance of \$10,000 continues to be appropriate.

Transmission Line Pack Gas. In its January 1977 Reasons for Decision, the Board valued transmission line pack gas for toll purposes at \$10,020. The Applicant has requested that line pack be revalued upwards to \$59,689, the value at 1 November 1980. A witness for the Company stated that this amount more properly reflects the value of the gas in the pipeline.

In my opinion, considering the rapidly escalating cost of natural gas, line pack should be valued at, or near, its current cost. I, therefore, recommend that the Applicant's transmission line pack be included in rate base at the 1 February 1982 Alberta Border Price plus the cost of transmission to Spruce, Manitoba, and accordingly, have adjusted the Applicant's valuation to \$64,570.¹

Since most of the increase in value occurred prior to the test-year, no adjustment for these price increases is recommended to be included in the test-year cost of service. However, as shown on page 15 under Cost of Service, the amount of the adjustment of \$4,881 with respect to the 1 February 1982 price increase is recommended to be credited to the cost of service.

1 Transmission line pack volume of $853 \times 10^3 \text{ m}^3$ has been revalued to the 1 February 1982 Alberta Border Price of 193.463¢/GJ plus TransCanada's commodity transportation toll for the Manitoba Zone as follows:
 $853 \times 10^3 \text{ m}^3 (37.53 \text{ GJ}/10^3 \text{ m}^3 \times 1.93463 \text{ ¢/GJ} + 3.092 \text{ ¢}/10^3 \text{ m}^3) = \$64,570$

Deferred Costs. The Applicant included, under the following categories, various average deferred costs in the rate base, the average balances of which, for the test-year, were as follows:

Deferred financing costs	\$257,228
Deferred rate hearing costs	5,189
Deferred gas transportation costs	<u>6,286</u>
Test year average	<u>\$268,703</u>

- (a) Deferred Financing Costs. In its past decisions the Board has never approved the inclusion in rate base of deferred financing costs or unamortized debt discount and expense. When asked why the Applicant had included the deferred financing costs in rate base a witness stated that it was a cost which the Company had incurred to provide utility service and it was, therefore, appropriate to include it in rate base.

It is my view that the various costs incurred by the Company, which are related to the deferred financing costs, are included in the calculation of the embedded cost of debt and recovered in the return on rate base. Accordingly, I am of the opinion that the deferred financing costs should not be included in the rate base.

- (b) Deferred Rate Hearing Costs. The Company estimated that professional fees associated with its tolls application will amount to approximately \$16,000 and that new tolls resulting from the application would probably be in effect for two years. The Applicant, therefore, added \$8,000 to the test-year cost of service and included the balance in deferred rate-hearing costs. Evidence indicated that in addition to the \$16,000 there were "in house" costs of \$35,100 which the Company intends to recover in the test-year. I believe that in the circumstances of this case all such costs should be included in the test-year cost of service rather than deferring a portion to be recovered in a future period.

- (c) Deferred Gas Transportation Costs. The Applicant maintains, in respect of the transmission service provided by Inter-City Minnesota, a deferred transmission by others account in which it records, each month, any differences between the transmission charge paid to Inter-City Minnesota and the amount collected through tolls. Subsequent to TG-1-77 the Applicant has filed with the Board its revised tariffs each time the price of natural gas increased. On each such occasion the Applicant also adjusted the demand component of its transmission toll to reflect any outstanding balance in the deferred transmission by others account.

I find the procedure followed by the Applicant to flow through the cost of transmission by others acceptable. I, therefore, recommended the continuation of the deferred transmission by others account.

The Applicant included in rate base an amount of \$6,286 which was the balance, as at 30 September 1981, of the deferred account. The Applicant agreed that \$8,284, the balance of the deferred account as at 31 December 1981, was currently being amortized and would be recovered over a twelve-month period through tolls approved by the Board as of 1 February 1982.

During the same period further amounts, either charges or credits, would be deferred to be similarly amortized at the time of a change in gas prices.

Under these circumstances, there does not appear to be any method of determining what the balance of the account would be over the test-year period and, therefore, no satisfactory estimate of the unamortized amount can be made.

- (d) Summary. For the reasons stated above on each category of Deferred Costs, I recommend that no amounts be included in rate base for deferred costs.

CHAPTER 3
RATE OF RETURN

Previous Decision. In its Decision dated January 1977, the Board computed an average rate of return of 12.254 percent as follows:

	<u>Capitalization</u>		
	<u>Capital Ratio (%)</u>	<u>Cost (%)</u>	<u>Weighted Cost (%)</u>
Long Term Debt			
9½% Promissory Note	45.594	11.508	5.247
Advanced from Parents	29.406	11.500	3.382
Equity advanced from Parent	<u>25.000</u>	<u>14.500</u>	<u>3.625</u>
	100.000		12.254
Allowed Rate of Return			12.254

Capital Structure. The applied-for capital structure and rate of return were developed by the Company's expert witness to coincide with a preliminary estimate of the test-year rate base and to reflect a 35 percent equity component which he felt to be consistent with the business risks confronting the pipeline operations. The amounts are as follows:

	<u>Ratio (%)</u>	<u>Cost Rate (%)</u>	<u>Cost Component (%)</u>
Long-term debt	38.9	14.6	5.68
Advances from parent	26.1	17.0	4.44
Equity	<u>35.0</u>	16.9	5.92
	<u>100.0</u>		
Rate of Return			<u>16.04</u>

The expert witness for the Company submitted that the cost of capital and fair rate of return for the Applicant should be determined on the basis of a prudent and reasonable capitalization, one that, in keeping with the over-all risks, should strike a reasonable balance between the goals of minimizing cost and

minimizing financial risk. The witness contended that the actual corporate capital structure of ICG Transmission Limited did not represent a reasonable capital structure because of the ultimate parent company's decision to provide substantial capital in the form of advances. The witness further submitted that the use of the ultimate parent company's consolidated capital structure would be inappropriate since it currently did not reflect solely the business risks associated with gas transmission.

In general, the evidence revealed that Canadian gas utilities have been operating with lower equity ratios than comparable U.S. gas utilities. The witness also indicated that, for the purpose of setting tolls, the equity ratios used for Canadian gas utilities have been between 30 and 35 percent. The witness contended, however, that in order to maintain their financial integrity given the current and prospective high cost of debt as compared to previous years, these companies would have to increase their future equity participation. In addition, it was submitted that the Applicant was subject to greater financial and business risks than comparable gas utilities due to its small size and extremely limited market growth potential as indicated by the results for the last four or five years.

An agreement has been entered into, which was subsequently approved by the Board, to transfer the utility assets of ICG Transmission Limited, which are under the jurisdiction of the Board, to ICG Transmission Holdings Ltd. at a total purchase price of \$4,527,000, an amount equal to the net book value of those assets. This agreement provides for Holdings to acquire the utility assets by assuming specified debt and issuing certain equity shares. During cross-examination, the witnesses for the Company stated that the Agreement was structured in such a way as to produce an actual capital structure which their expert witness felt was appropriate for the purposes of setting tolls. The actual capital structure resulting from the agreement is shown below.

	<u>Ratio</u> (%)
Long-term debt	37.6
Other Debt to InterCity Gas	27.4
Equity	<u>35.0</u>
Total	<u>100.0</u>

Based on the evidence submitted in respect of the Applicant's pipeline operations and the current and prospective economic conditions, it appears that the risks to which this pipeline operation is exposed have increased since its last toll application. As a result, I am of the opinion that an increase in the equity ratio from that allowed in the Board's last decision is not unreasonable. The evidence indicates that the actual capital structure resulting from the agreement between Transmission and Holdings will support only pipeline assets and lies within a range of reasonableness for the pipeline operations. I recommend that for purposes of establishing a just and reasonable rate of return on rate base, the rate base be considered to be financed in the proportions of debt and equity of the capital structure of Holdings, that is, by 37.6 percent long-term debt, 27.4 percent other debt to Inter-City Gas and 35.0 percent equity.

The various individual cost rates are discussed below.

Cost of Debt. The embedded cost of long-term debt was determined to be 14.58 percent by means of an "actuarial" method. In the Company's last toll application, the embedded cost of debt was determined and approved on the basis of a "bonds outstanding" method. Evidence submitted revealed that the proposed "actuarial" method produces a constant effective interest rate over the life of the debt issue whereas under the "bonds outstanding" method the effective cost tends to increase as the balance of debt decreases. Evidence showed that the cost of debt would be approximately equal under either method during the test period. The increase in the embedded cost of this debt since the last hearing, is due almost entirely to the increase in the exchange rate on U.S. funds. I am of the opinion that it is appropriate to use the "actuarial" method and that the 14.58 percent embedded cost of long-term debt is reasonable for the test-period.

The Applicant applied for 17.0 percent as the cost rate for other debt. This rate was based on an estimate of the prospective prime commercial rate plus a risk allowance of 100 basis points. The Company's expert witness contended that the use of the prospective short-term rate was appropriate since the annual debt required to fund the Applicant's operations has been relatively small since the initial capitalization and, standing alone, it was unlikely that the Applicant would have been able to or would have chosen to finance with long-term debt. The 100 basis point upward adjustment was included in order to recognize that the Applicant standing alone would not be able to obtain funds at the prime rate.

During cross-examination, the Company's expert witness stated that if he were recommending a prospective long-term rate for the cost of this debt, it would be 16 percent. The witness further agreed that it was appropriate that the cost of this inter-company debt tend to reflect a rate at which the Applicant could borrow due to its relationship with Inter-City Gas Corporation. This rate is essentially based on the bank prime lending rates. Subsequent cross-examination revealed that the tentative corporate plan for the regulated companies in the group, such as ICG Transmission Holdings Ltd., was to have inter-company advances become permanent capital with interest rates at the levels approved by the various regulatory bodies.

The evidence indicates that were the cost rate of other debt to be based on either the prospective short-term prime or the prospective long-term rate, the cost rate would be 16 percent. Accordingly, I recommend that this rate be used as the cost rate for the debt owing to Inter-City Gas.

Rate of Return on Equity. The Applicant applied for a rate of return on equity of 16.9 percent on the basis that equity forms 35 percent of the capital structure. The Company witness submitted that a company's cost of equity capital is the opportunity cost or the prospective return available to investors from investments of similar risk.

The Applicant's expert witness relied primarily on the comparable earnings and discounted cash flow methods to determine the cost of equity capital. The witness concluded that, on the basis of these two methods, a rate of return on equity in the range of 16.5 to 17.5 percent was indicated for the Applicant. The comparable earnings test primarily gave weight to the experienced returns earned by the witness's comparable groups of industrials in the three-year period ending in 1979 and the three- and four-year periods ending in 1980. The discounted cash flow method as applied to the witness's group of industrials was based primarily on data ending with 1980. Cross-examination revealed, however, that there had been a decrease in the 1981 versus 1980 equity earnings of most industrials and that the witness, based on current economic forecasts, expected the 1982 earnings of most of the companies included in the analysis to be lower than the average returns achieved over the 1978-1980 period.

After giving careful consideration to the evidence, I judge that 15.75 percent is a fair and reasonable rate of return on the 35 percent equity component in the capital structure recommended for the test-year.

Rate of Return on Rate Base. Based upon my findings in this case, it is my recommendation that a rate of return on rate base of 15.37 percent is fair and reasonable. The derivation of this rate of return is as follows:

	<u>Ratio</u> (%)	<u>Cost</u> <u>Rate</u> (%)	<u>Cost</u> <u>Component</u> (%)
Long-term debt	37.6	14.58	5.48
Other debt to InterCity Gas	27.4	16.00	4.38
Equity	<u>35.0</u>	15.75	<u>5.51</u>
	<u>100.0</u>		
Rate of return on rate base			<u>15.37</u>

CHAPTER 4

TRANSPORTATION COST OF SERVICE EXCLUDING
COST OF GAS AND TRANSMISSION BY OTHERS

The Applicant submitted its transportation cost of service for a test year commencing on 1 January 1982.

A summary of the transportation cost of service, excluding the cost of gas and transmission by others, which I recommend for approval by the Board is shown below, and details of the adjustments that I recommend, other than Rate of Return which are included in Chapter 3, are shown in this chapter.

Transportation Cost of Service (excluding
cost of gas and transmission by others)

	<u>Application</u> (\$)	<u>Recommended</u> <u>Adjustments</u> (\$)	<u>As</u> <u>Recommended</u> (\$)
Operating and Maintenance Expense	197,900	8,000	205,900
Depreciation	182,365	100	182,465
Taxes other than income	236,147		236,147
Income Taxes	283,206	(7,049)	276,157
Line Pack Revaluation		(4,881)	(4,881)
 Total Cost of Service - Excluding Return	 899,618	 (3,830)	 895,788
 Return on Rate Base @ 16.04%	 717,199	 (717,199)	
 Return on Rate Base @ 15.37%	 644,686	 644,686	 644,686
 Net Cost of Service	 <u>1,616,817</u>	 <u>(76,343)</u>	 <u>1,540,474</u>

Operating and Maintenance Expense. The Applicant based its estimate of operating and maintenance expenses for the year 1982 on actual expenses in the base period ending 30 September 1981 with an adjustment of 13 percent for inflation. During the hearing the Company witnesses explained that this allowance was based on the "judgement of the corporate office."

Although the Applicant has no employees, costs are allocated from the parent and other affiliated companies on a time basis. It was pointed out during the hearing that an agreement had been reached with the companies' employees for a 13 percent increase effective 1 January 1982 and a further 3 percent increase effective 4 July 1982, although as of 23 March 1982 the agreement had not been signed. Therefore this settlement will impact on the Applicant's cost of service. In view of the above and other industry wage settlements for 1982 and of the fact that the escalation covers more than a calendar year, I conclude that the 13 percent is a reasonable allowance for inflation.

The Applicant estimated that the cost of professional fees pertaining to its rate application would be \$16,000 and included \$8,000 of this amount in Special Services with the balance included in rate base as part of deferred costs. It is my opinion that where an amount for professional services appears reasonable, it should be recovered in tolls during the test-year. I, therefore, recommend that the \$16,000 total for these professional fees be included in operating and maintenance expense and recovered during the test-year (refer to page 6 under Rate Base).

Depreciation. Having recommended the adjustment of the rate base to reflect the inclusion of \$3,100 for gas plant in service (refer to page 4 under Rate Base), I, accordingly, recommend that depreciation expense be increased by \$100.

Line Pack Revaluation. As explained more fully on page 5 under Rate Base, I recommend that transmission line pack gas be revalued. The amount of the increase of \$4,881, which is the difference between the 1 November 1980 and 1 February 1982 Alberta Border Price plus transportation charges, is recommended to be applied to reduce the cost of service.

Income Taxes. Consistent with the Board's January 1977 Decision in respect of Transmission, the Applicant has, in its present submission, computed the amount of income taxes which it is seeking to include in its tolls on the flow-through basis.

No intervenor objected to this approach and I am of the view that the calculation of income taxes for toll purposes should continue to be performed under the flow-through method. Accordingly, I recommend that the Board adopt this method in the current proceeding.

Within this flow-through context, the Company calculated a tax allowance based on the equity component of the return on rate base which flowed from the applied-for capital structure. As discussed in Chapter 3 of this report dealing with rate of return matters, Transmission has entered into an agreement to sell all of the pipeline related assets to Holdings. This agreement has structured the debt and equity financing of the asset purchase by Holdings in such a way that I have found the capital structure ensuing therefrom for the test-period to be appropriate for toll purposes. Because of this and the incidental fact that the pipeline assets are to be supported by the actual capital recorded in Holding's books of account,¹ I find the Applicant's approach to the calculation of flow-through income taxes to be appropriate and recommend that it be adopted by the Board in the current proceedings.

¹ As opposed to the actual capital structure of ICG Transmission Ltd. which would, had the pipeline assets remained with that Company, have supported both pipeline assets as well as other unrelated assets.

The calculation of the amount of income taxes (\$276,157) which I recommend that the Board permit the Company to include in its tolls is given in Appendix III of this report. In addition to the basic earnings derived from the allowed return on equity, the calculation incorporates several adjusting items which have been examined and which I have found to be properly includible therein.

The tax rate of 50.3 percent used in the calculation is that applied-for by the Company and reflects the 5 percent corporate surtax expected to apply during the test-year 1982.² Since the allowance for income tax is recommended to be calculated on a flow-through basis, the amounts to be included in cost of service would be the same whether the surtax is calculated separately or included as part of the income tax allowance by including it in the income tax rate. Accordingly, I recommend that the tax rate employed in the calculation reflect the 5 percent corporate surtax.

² First instituted with respect to the years 1980 and 1981, the Federal Government proposed, in its Notice of Ways and Means Motion of November 12, 1981, to extend through 1982 the 5 percent surtax on Federal Part 1 taxes payable by corporations.

CHAPTER 5

TOLL DESIGN AND OTHER TARIFF MATTERS

The Applicant's Tolls. The Applicant proposed tolls applicable to the gas sold by it in Ontario and to the gas exported by it under licences GL-28 and GL-29. The proposed tolls were based on the Applicant's cost of service in respect of owning and operating its pipeline sections in Manitoba and Ontario as included in the application. The Applicant's toll design was in accordance with the method approved by the Board in its Order No. TG-1-77.

I recommend that the Applicant's tolls be based on the Applicant's cost of transmission service recommended in this report and, that the tolls be derived by using the method previously approved by the Board. Accordingly, I recommend that the Board approve the Applicant's transmission tolls for domestic and export sales as set out in Appendix IV. (The derivation of tolls is shown in Appendices V to VII).

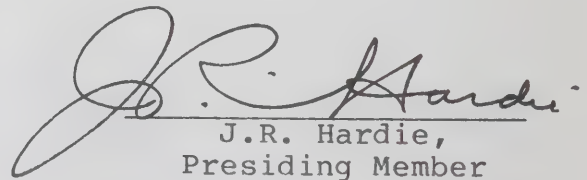
I recommend also that the Applicant be directed to file with the Board, as required by Section 51 of the Act, its revised tariffs reflecting the transmission tolls to be approved as a result of this report.

CHAPTER 6
RECOMMENDED DISPOSITION

On the basis of the evidence and argument presented at the hearing of this application, I recommend to the Board that:

- (1) the tolls shown in Appendix IV to this report as the recommended tolls be the tolls to be charged by ICG Transmission Holdings Ltd. effective 15 May 1982;
- (2) ICG Transmission Holdings Ltd. be directed to file with the Board and serve upon all parties to the hearing of this application new tariffs containing tolls conforming with the recommendations in this report;
- (3) if a new tariff is filed prior to 15 May 1982, it be suspended and be of no effect until that date; and
- (4) any provisions of the tariffs and tolls, or any portions thereof, that are contrary to any provision of the National Energy Board Act, or to any Order of the Board including this Order, be disallowed, such disallowance to be effective on 14 May 1982.

I submit this, my report, to the National Energy Board in accordance with subsection (1) of section 14 of the Act. I respectfully recommend that it be adopted as the Board's own findings and decision on the application as allowed under the said section.


J.R. Hardie,
Presiding Member

Ottawa, Canada
April, 1982

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-2-82

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder; and

IN THE MATTER OF an application by ICG
Transmission Limited and ICG Transmission
Holdings Ltd. for certain orders respecting
rates and tolls under sections 50 and 53 of the
Act, filed with the Board under File
No. 1562-J23-3.

B E F O R E the Board on Thursday, the 4th day of February 1982.

Upon ICG Transmission Limited and ICG Transmission
Holdings Ltd. (hereinafter referred to collectively as the
Applicant) having filed an application dated 8 January 1982 for
orders under sections 50 and 53 of the Act fixing the just and
reasonable rates or tolls to be charged by the Applicant for the
transmission of natural gas, and disallowing any existing rates or
tolls, or portions thereof that are inconsistent with the rates or
tolls so fixed.

IT IS ORDERED THAT:

1. The application will be heard at a public hearing
commencing at 9:30 a.m. on Tuesday, 23 March 1982, in the Richelieu
Room, Skyline Hotel, 101 Lyon Street, Ottawa, Ontario. The
proceedings will be conducted in either official language and
simultaneous translation will be provided should a party to the
proceedings request such facilities in his intervention.

2. The Applicant shall arrange to have the Notice of
Hearing, as set out in Annex I, published by 19 February 1982 in
one issue of "The Herald" in Calgary, Alberta; "The Journal" in
Edmonton, Alberta; "The Star-Phoenix" in Saskatoon, Saskatchewan;
"The Winnipeg Free Press" and "La Liberté" in Winnipeg, Manitoba;
"The Globe and Mail" and "Financial Times of Canada" in Toronto,
Ontario; "The Citizen" in Ottawa, Ontario; "The Gazette" and
"Le Devoir" in Montreal, Quebec; and as soon as possible in the
"Financial Post" and in the Canada Gazette.

3. The Applicant shall, as soon as possible, serve a copy of
the application and this order on the Attorneys General of the
Provinces of Alberta, Saskatchewan, Manitoba, Ontario, and Quebec,
.../2

- 2 -

the Canadian Gas Association, the Canadian Petroleum Association, and the Independent Petroleum Association of Canada, at the addresses listed in Annex II, the Applicant's customers, and those parties who have intervened pursuant to paragraph 4.

4. Any person intending to intervene in the hearing shall, on or before 10 March 1982, file with the Secretary of the Board, thirty (30) copies of a written statement, in either official language, containing his reply or submission, together with any supporting material. This submission shall contain a concise statement of the facts from which the intervenor's interest in the proceedings may be determined; it shall be endorsed with the name and address of the intervenor or his solicitor to whom communications may be sent; and it shall state the official language in which the intervenor wishes to be heard.

5. Intervenors shall serve, on or before 10 March 1982, three copies of their submission on the Applicant, and, as soon as possible, one (1) copy on each of the parties named in paragraph 3, and one (1) copy on each other party who has intervened pursuant to paragraph 4. A list of intervenors will be distributed to all interested parties by the Board on or about 12 March 1982.

6. Any party who files a statement of intervention after 10 March 1982 must file and serve a notice of motion, requesting leave to submit a late intervention. Such notice shall be filed and served in accordance with paragraph 7 of the Rules and Procedures set out in Annex III to this Order.

7. The Applicant shall prepare written direct evidence in question and answer form with numbered lines for each of its witnesses and shall,

(a) on or before 5 March 1982 file thirty (30) copies with the Secretary of the Board, and

(b) as soon as possible, serve one (1) copy on any party who has intervened pursuant to paragraph 4.

.../3

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8. Any intervenor who wishes to present direct evidence in the hearing shall, unless otherwise authorized by the Board, prepare written direct evidence, and shall, on or before 16 March 1982 file thirty (30) copies with the Board and serve one (1) copy on the Applicant and on other intervenors.

9. The Rules and Procedures set out in Annex III to this Order shall govern the conduct of the hearing.

10. Any interested party may examine a copy of the application and submissions filed therewith at the following locations:

National Energy Board
Trebla Building
473 Albert Street
Ottawa, Ontario
K1A 0E5

or

3303 - 33rd Street N.W.
Calgary, Alberta
T2L 2A7

ICG Transmission Limited and
ICG Transmission Holdings Ltd.
c/o Inter-City Gas Corporation
1100 - 444 St. Mary Avenue
Winnipeg, Manitoba

Dated at the City of Ottawa in the Province of Ontario,
this 4th day of February, 1982.

NATIONAL ENERGY BOARD



G. Yorke Slader,
Secretary

NATIONAL ENERGY BOARD
NOTICE OF PUBLIC HEARING
ICG RATES APPLICATION

The National Energy Board will conduct a hearing on an application by ICG Transmission Limited and ICG Transmission Holdings Ltd. for orders under sections 50 and 53 of the National Energy Board Act fixing the just and reasonable rates or tolls to be charged by the Applicant for the transmission of natural gas. The hearing will commence at 9:30 a.m. on Tuesday, 23 March 1982, in the Richelieu Room, Skyline Hotel, 101 Lyon Street, Ottawa, Ontario.

The hearing will be public and will be held to obtain evidence and hear the relevant views of interested parties, groups, organizations, and companies on the application.

Any person wishing to intervene should write or telex the Secretary of the Board, as soon as possible, requesting a copy of Order RH-2-82 (available in English or French) which sets out the procedure for intervening and the locations at which copies of the application may be examined. The deadline for filing interventions with the Board is 10 March 1982.

For further information, telephone the Board's Information Officer, Mr. D. Sabourin, at (613) 593-6936.

G. Yorke Slader
Secretary
National Energy Board
473 Albert Street
Ottawa, Ontario
K1A 0E5
Telex No: 053 3791

Dated at Ottawa, Canada
4 February 1982

ANNEX II to
Order No. RH-2-82

Attorney General for the
Province of Alberta,
227 Legislative Building,
EDMONTON, Alberta
T5K 2B6

Attorney General for the
Province of Saskatchewan,
Legislative Buildings,
REGINA, Saskatchewan
S4S 0B3

Attorney General for the
Province of Manitoba,
104 Legislative Buildings,
WINNIPEG, Manitoba
R3C 0V8

Attorney General of the
Province of Ontario,
18 King Street East,
Parliament Buildings,
Toronto, Ontario
M5C 1C5

and

Mr. R.P. Smith,
Senior Counsel,
Legal Services,
Ministry of Energy,
56 Wellesley Street West,
12th Floor,
Toronto, Ontario
M7A 2B7

Procureur Général de la
Province de Québec,
Edifice Delta,
1200 route de l'église,
Ste-Foy, Québec
G1R 4X7

and

Me Jean Giroux, avocat,
Service juridique du Ministère,
de l'énergie des ressources,
200B, chemin Ste-Foy,
Quebec City, Quebec
G1R 4X7

Mr. D.E. Alderson,
President,
Canadian Gas Association,
55 Scarsdale Road,
Don Mills, Ontario
M5B 2R3

The Secretary,
Canadian Petroleum Association,
1500 - 633 - Sixth Avenue S.W.,
Calgary, Alberta
T2P 2Y5

Mr. A.E. Potter,
Manager, Regulatory Affairs,
Independent Petroleum Association
of Canada,
1610 Norcen Tower,
715 - 5th Avenue S.W.,
Calgary, Alberta
T2P 2X6

RULES AND PROCEDURES

1. In these Rules, "party" means ICG Transmission Limited and ICG Transmission Holdings Ltd., or any respondent or intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-2-82.
2. At the hearing of the application the evidence will be heard in the following order:
 - (1) Cost of Service and Rate Base
 - (2) Rate of Return
 - (3) Related Tariff Matters
3. The Board will hear all of the evidence on each of the items referred to in paragraph 2, item by item, and for that purpose the Board shall hear first all of the evidence of the Applicant in respect of one item and then shall hear the evidence of each of the intervenors in respect of the same item.
4. On completion of the evidence on all the items referred to in paragraph 2, the Board shall hear the oral argument of all parties.
5. Any party receiving an information request from the Board shall respond as soon as possible by filing with the Secretary of the Board thirty (30) copies of the response, and shall file the information request and its response together as an exhibit at the hearing.
6. Any party who wishes to obtain additional information from another party in respect of matters raised in filings made with the Board, may request in writing that such information be provided, and the party to whom the request is made shall, as soon as possible, either provide a written response to the request or refer the question to the Board under paragraph 7 hereof. Both written requests and the responses thereto shall be filed as exhibits at the hearing.
7. If any question arises upon which the decision of the Board may be required, thirty (30) copies of a notice of motion with respect thereto shall be filed with the Secretary of the Board and one (1) copy served on the Applicant and each intervenor, and the motion will be heard by the Board on a date to be fixed by it.
8. Any party who files a submission or written direct evidence in accordance with paragraphs 4, 7 or 8 of the Order or a notice of motion pursuant to paragraph 7 hereof, shall at the opening of the hearing, file two copies of the same and proof of service thereof.
9. The order of appearances of parties and sequence of adducing evidence and conducting cross-examination will be announced by the Board on or before the opening of the hearing.

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-1-RH-2-82

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder; and

IN THE MATTER OF an application by ICG
Transmission Limited and ICG Transmission
Holdings Ltd. for certain orders respecting
rates and tolls under sections 50 and 53
of the National Energy Board Act, filed
with the Board under File No. 1562-J23-3.

B E F O R E the Board on Thursday, the 4th day of March 1982.

UPON the Board by Order No. RH-2-82 having set down
the application by ICG Transmission Limited and ICG Transmission
Holdings Ltd. dated 8 January 1982, for a public hearing com-
mencing 23 March 1982, in the Richelieu Room, Skyline Hotel,
101 Lyon Street, Ottawa, Ontario;

AND UPON the Board now being able to accommodate
the hearing of the application in the hearing room of the
National Energy Board in Ottawa;

IT IS ORDERED THAT:

1. Paragraph 1 of Order No. RH-2-82 be revoked and the
following substituted therefor:

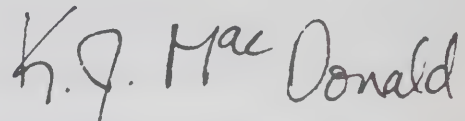
"1. The application will be heard at a public
hearing commencing at 9:30 a.m. on Tuesday,
23 March 1982, in the hearing room of the
National Energy Board, 3rd Floor, 473 Albert
Street, Ottawa, Ontario. The proceedings will
be conducted in either official language and

- 2 -

simultaneous translation will be provided should a party to the proceedings request such facilities in his intervention."

DATED at the City of Ottawa, in the Province of Ontario,
this 4th day of March, 1982.

NATIONAL ENERGY BOARD

A handwritten signature in dark ink, reading "G. Yorke Slader". The signature is written in a cursive style, with the first name "G." and last name "Slader" clearly legible.

G. Yorke Slader
Secretary

CALCULATION OF RECOMMENDED INCOME TAX ALLOWANCE

INCOME AFTER TAX ¹		\$231,114
Adjustments to income after tax		
<u>ADD</u>		
Depreciation		182,465
Amortization of deferreds		27,977
Foreign exchange loss on repayment of debt		33,895
<u>DEDUCT</u>		
Capital cost allowance		196,716
Inventory allowance		1,937
Eligible capital expenditures		<u>3,916</u>
Income after tax as adjusted		<u>\$272,882</u>
Income tax allowance	$\frac{.503}{1-.503} \times \$272,882$	\$276,157

1. Equals the allowed weighted average cost of equity (.0551) multiplied by the test year average rate base of \$4,194,445.

2. The effective tax rate as recommended on page 16.

I C G T R A N S M I S S I O N H O L D I N G S L T D.

RECOMMENDED TRANSMISSION TOLLS

	<u>Transmission Tolls</u>	
	<u>Demand Component</u>	<u>Commodity Component</u>
<u>A. Domestic Sale</u>		
1. CD Service	($\$ / 10^3 \text{ m} / \text{month}$)	Nil
2. Other Services (AOI, TWS, PS)	Nil	Nil
<u>B. Export Sale</u>		
1. GL-28 volumes	($\$ / \text{month}$)	Nil
2. GL-29 volumes	($\$ / \text{month}$)	Nil

(1) Based on contract daily demand of $350 \times 10^3 \text{ m}$

(2) Demand toll for all volumes delivered during the month.

Note

Expected Revenue = $(\$115.304 \times 350 \times 12) + (\$4,568 \times 12) + (\$83,449 \times 12) = \$1,540,480$

I C G T R A N S M I S S I O N H O L D I N G S L T D .RECOMMENDED COST OF TRANSMISSION SERVICE

(excludes "cost of gas" and "transmission by others")

	<u>Cost of Metering</u> (\$)	<u>Cost of Transmission</u> (\$)	<u>Total</u> (\$)
Operation and Maintenance	31,696	174,204	205,900
Depreciation	10,478	171,987	182,465
Taxes other than Income	14,169	221,978	236,147
Income Taxes	16,571	259,586	276,157
Return on Rate Base	38,681	606,005	644,686
Line Pack Revaluation Credit	-	<u>(4,881)</u>	<u>(4,881)</u>
Total Cost of Transmission Service	111,595	1,428,879	1,540,474

I C G T R A N S M I S S I O N H O L D I N G S L T D.

Summary of Contract Demand and Fixed Cost Allocation Units*

	Contract Demand 3 3 (10 m')	Fixed Cost Allocation Units 3 3 10 m -Km	Weighted Average Km
Domestic Sale (Inter-City Gas)	350.0	65,415	186.9
Export Sales (Inter-City Minnesota)			
GL-28	71.8	6,943	96.7
GL-29	711.7	135,437	190.3
Total Export	783.5	142,380	
Total Domestic and Export Sales	1,133.5	207,795	

* Source - Application, Tab E, Rate Design, Schedule 2

I C G T R A N S M I S S I O N H O L D I N G S L T D.

RECOMMENDED COST OF TRANSMISSION SERVICE TO DOMESTIC AND EXPORT SALES

(excludes "cost of gas" and "transmission by others")

<u>Calculation of Unit Costs</u>	<u>Metering</u>	<u>Transmission</u>	<u>Total</u>
Cost of Transmission Service ⁽¹⁾	(\$)111,595	(\$)1,428,879	(\$)1,540,474
Fixed Cost Allocation Units:(2)			
^{3 3} 10 m	1,133.5	-	-
^{3 3} 10 m - Km	-	207,795	-
<u>Unit Cost</u>			
^{3 3} Metering (\$/10 m /year)	98.4517	-	-
^{3 3} Transmission (\$/10 m demand/Year)	-	6.8764	-
<u>Allocated Annual Cost to Sales</u>	(\$)	(\$)	(\$)
Domestic Sale	34,458	449,819	484,277
Export Sales:			
GL-28	7,069	47,742	54,811
GL-29	70,068	931,318	1,001,386
Total Export	77,137	979,060	1,056,197
Total Domestic and Export Sales	111,595	1,428,879	1,540,474

1. Appendix V
2. Appendix VI



ORDER NO. TG-1-82

IN THE MATTER OF the National Energy Board Act and
the Regulations made thereunder; and

IN THE MATTER OF an application by ICG
Transmission Holdings Ltd. (hereinafter called
"the Applicant") for certain Orders respecting
tariffs and tolls under sections 50 and 53 of the
Act, filed with the Board under File No. 1562-J23-3.

BEFORE the Board on Monday the 26th day of April 1982.

UPON the Applicant having filed an application dated
8 January 1982 for Orders under sections 50 and 53 of the Act fixing
the just and reasonable tolls to be charged by the Applicant for the
transmission of natural gas, and disallowing any existing tolls, or
portions thereof that are inconsistent with the tolls so fixed;

AND UPON a public hearing having been held on 23 and
24 March 1982, in the City of Ottawa, in the Province of Ontario, at
which the Applicant and all interested parties were heard, and at
which the Presiding Member, Mr. J.R. Hardie, took evidence and
acquired information for the purpose of making a report to the Board
on the application pursuant to subsection (1) of section 14 of the
Act;

AND UPON the Presiding Member having made a report to the
Board;

AND UPON the Board, having received and considered the
transcripts of the evidence and argument presented at the hearing
and the exhibits filed thereat, together with the Presiding Member's
report, and, being satisfied that the tolls recommended by the
Presiding Member are just and reasonable, has adopted the Presiding
Member's report as the statement of its findings and its decision on
the said application;

IT IS ORDERED THAT:

1. The Applicant shall charge for, or in respect of gas transported and sold by it in Canada, and for the transportation of gas which is exported to the United States of America the tolls specified in Schedule A hereto.

AND IT IS FURTHER ORDERED THAT:

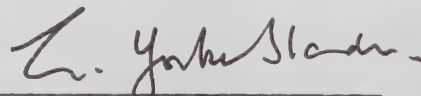
2. The Applicant shall forthwith file with the Board and serve upon all parties to the hearing of this application new tariffs containing tolls conforming with this Order.

3. Notwithstanding the filing of the said new tariffs and tolls, the same shall remain suspended and be of no effect until the 15th day of May, 1982.

4. Those provisions of the tariffs and tolls, or any portion thereof, that are contrary to any provision of the National Energy Board Act, or to any Order of the Board including this Order, be and the same are hereby disallowed, such disallowance to be effective on the 14th day of May, 1982.

DATED at the City of Ottawa, in the Province of Ontario,
this 26th day of April, 1982.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

ICG TRANSMISSION HOLDINGS LTD.

TOLLS FOR THE TRANSMISSION OF NATURAL GAS

Effective 15 May 1982

		Transmission Tolls	
		Demand Component	Commodity Component
A. Domestic Sale	1. CD Service	($\$ / 10^3 \text{ m}^3 / \text{month}$)	Nil
	2. Other Services (AOI, TWS, PS)	Nil	Nil
B. Export Sale	1. GL-28 volumes	($\$ / \text{month}$)	Nil
	2. GL-29 volumes	($\$ / \text{month}$)	Nil

(1) Based on contract daily demand of $350 \times 10^3 \text{ m}^3$

(2) Demand toll for all volumes delivered during the month.

Note

Expected Revenue = $(\$115.304 \times 350 \times 12) + (\$4,568 \times 12) + (\$83,449 \times 12) = \$1,540,480$

